


Mike Downing
MEDFA Conference, Oct. 2010



Missouri's Development Finance Programs –

The Basics

1

References for more Info

■ Program Info, Applications:

- DED Programs: www.MissouriDevelopment.org
 - (Click on “BCS Programs”)
- MHDC: www.mhdc.org
- MTC: www.MissouriTechnology.org
- MDFB: www.MDFB.org

■ Finance Guide:

- www.MissouriDevelopment.org
 - (Click on “Finance Guide”)

2

Purpose

Development Finance Programs

■ Facilitate higher-impact projects that otherwise likely would not occur by providing a public sector subsidy.

■ Impact: Economic benefits to the state and communities.

- New Jobs, Retained Jobs.
- New Capital investment.
- Increase in state/local tax base.
- Blight elimination.

3

Types of Projects

■ Development Finance projects

- Business Attraction/Expansion/Start-up
- Property Development & Redevelopment
- Housing Development

■ Public Benefit Projects:

- Public infrastructure (unrelated to the above).
- Community facilities

4

Types of Funding Situations

Development Finance Programs

1. Competition – between states/communities

2. Lack of Funds Gap

3. Return on Investment Gap



5

1. Competitive Projects



6

Seven Ps of Site Selection

New Company Attraction/Relocation

- Proximity

 - Close to markets, suppliers, transportation hubs, utility capacity, other required needs.
- People

 - Number with required skills within 30-45 min. drive radius;
 - Number of local graduates in required fields.
- Place

 - “Cool” place to attract/retain young talent;
 - Higher/continuing education opportunities a plus.

Source: IEDC Now, August 31, 2010

7

Seven Ps of Site Selection

New Company Attraction/Relocation

- Product

 - Available buildings or sites – shovel ready;
 - Applicable to specific needs.
- Perception

 - Supportive local/state government;
 - Cooperative labor situation.
- Price

 - After meeting all requirements above, the finalist that has the lowest overall costs, including incentives. (Or, in some cases, provides the most up-front funding.)
- Persistence

 - Reputation for maintaining good relationships with site selection consultants and companies.

Source: IEDC Now, August 31, 2010

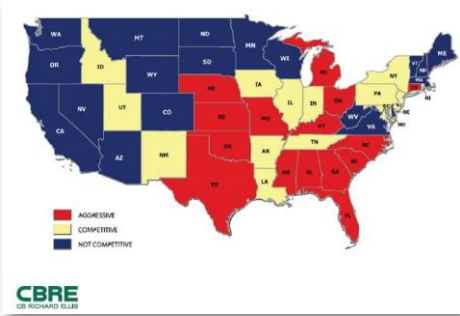
8

Competition Projects

- Company evaluates all variable costs between finalist sites that meet all their criteria.
 - Incentives can’t make up for a lack of key requirements.
- Incentives are valued on actually how much a company will benefit from, on PV basis.
 - Preferred: Up-front or within a few years.
- How much will it take to win:
 - Intuitive - after negotiations, past projects, others.

9

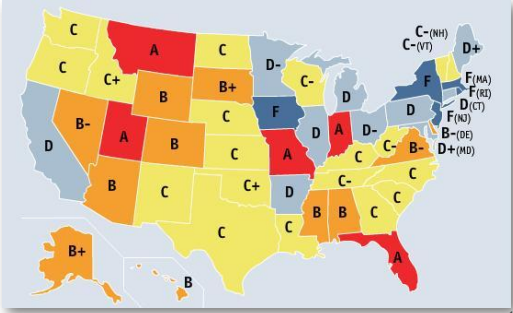
Business Incentives Rating



10

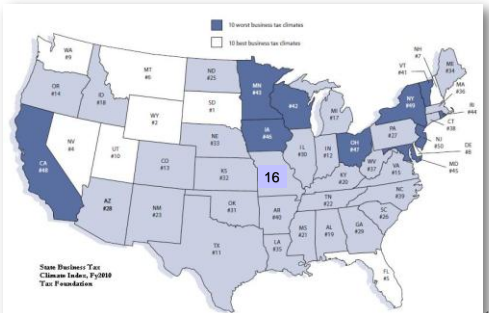
Business Tax Climate

2009, Ball State Center for Business and Economic Research



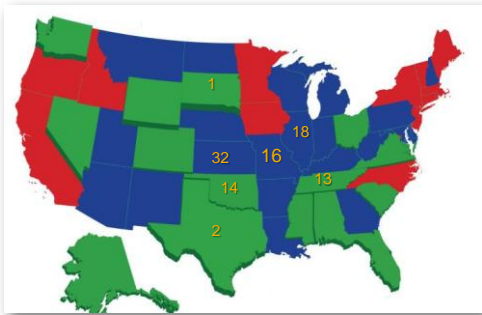
State Business Tax Climate

2010, Tax Foundation



2010 Business Tax Index

Small Business Entrepreneurial Council



13

Funding Methods/Sources

Competitive Projects

- Tax credits (state)
 - Quality Jobs, EEZ, BUILD, Development
- Sales tax exemptions (state, local) – M&E, RE
 - Statutory (manufacturing) – (also includes energy.)
 - Chapter 100 bonds
- Tax abatement/exemption (local)
- Tax diversion (local) - TIF
- New taxes in specially designated areas (special districts)
- Revenue Bonds (state, local)

14

2. Lack of Funds Gap



15

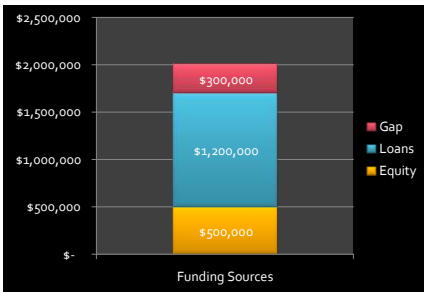
Example

Lack of Funds Gap

- Company can't obtain full amount of project funding. Reasons:
 - Insufficient equity to qualify for larger loan.
 - Insufficient upside to interest equity investors.
 - Inadequate cash flow to service debt.
 - Inadequate collateral to meet required ratios.
 - Poor past credit.

16

Example – Lack of Funds Gap



17

Funding Methods/Sources

Lack of Funds Gap Projects

- Loans (non-profits, state)
- Loan Guarantees (SBA)
- Sales tax exemptions (state, local)
- Notes:
 - Must be “up-front” funding.
 - Not effective – tax credits, tax abatement.

18

3. Return on Investment Gap



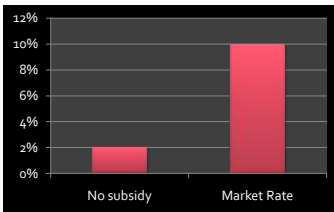
19

Return on Investment Gap

- Mostly redevelopment and housing projects.
- ROI:
 - Projected return on developer’s equity invested in the project.
 - Includes an estimate of the sale of the property at some point.
- Principle:
 - Developer is unlikely to initiate project if ROI is below market rate for a type of project in a particular area.

20

ROI Gap – Example



ROI calculation: Return on developer’s equity, assuming a projected sale price of the property and factoring in the tax benefits. Projected costs, revenues and sale price validated by an independent appraiser.

21

Funding Methods ROI Gap Projects

- State/Federal tax credits
 - Historic, Housing, MDFB.
- Tax diversion
 - TIF, MODESA, Downtown Revitalization
- Tax exemption/abatement
 - Sales or property taxes.
- New taxes (special districts)
- Infrastructure funding

22

State Tax Credits

Development Finance Projects



23

State Tax Credit Programs Business Attraction/Expansion Projects

Program	Min. New Jobs	Min. New Inv.	Benefit Formula	# Yrs	Tax Credit
Quality Jobs – Small Bus.	20/40	NA	Formula	3-5	NA
Quality Jobs - Technology	10	NA	Formula	5	Refund
Quality Jobs – High Impact	100	NA	Formula	5	Refund
Enhanced Enterprise Zone	2	\$100k	Formula	5	Refund
BUILD	100/200	\$15/\$10 mil.	Discretionary	<15	Refund
Development	Discr.	Discretionary	Discretionary	1	Sellable
Rebuilding Communities	NA	None	Formula	4	Sellable

• Eligible companies – “Primary” businesses (not retail or local services).

24

Quality Jobs

Small business

120%+ of County Average Wage: 5-year period						
County Average Wage	\$	37,379				
Pct. Wages of County Avg.		123%			Wht. 3%	
Greater than 120%?	Yes - 5 year benefit period					
	Year 1	Year 2	Year 3	Year 4	Year 5	Total
New Jobs	50	50	50	50	50	
Average Wages	\$ 46,000	\$ 46,000	\$ 46,000	\$ 46,000	\$ 46,000	
New Payroll	\$ 2,300,000	\$ 2,300,000	\$ 2,300,000	\$ 2,300,000	\$ 2,300,000	
Estimated Retained Wht	\$ 69,000	\$ 69,000	\$ 69,000	\$ 69,000	\$ 69,000	\$ 345,000

25

Quality Jobs

Technology Business

County Average Wage	\$	37,379					Avg. Wage Bonus	1%	
Pct. Wages of County Avg.		147%					Base Benefit	5%	
							Total Benefits	6%	
	Year 1	Year 2	Year 3	Year 4	Year 5	Total			
New Jobs	50	50	50	50	50				
Average Wages	\$ 55,000	\$ 55,000	\$ 55,000	\$ 55,000	\$ 55,000				
New Payroll	\$ 2,750,000	\$ 2,750,000	\$ 2,750,000	\$ 2,750,000	\$ 2,750,000				
Prelim. Program Benefit	\$ 165,000	\$ 165,000	\$ 165,000	\$ 165,000	\$ 165,000	\$ 825,000			
Retained Wht (3%)	\$ 82,500	\$ 82,500	\$ 82,500	\$ 82,500	\$ 82,500	\$ 412,500			
Tax Credits	\$ 82,500	\$ 82,500	\$ 82,500	\$ 82,500	\$ 82,500	\$ 412,500			

26

Quality Jobs

High Impact

County Average Wage	\$	40,000					Base Benefit	3%	
Pct. Wages of County Avg.		150%					Avg. Wage Bonus	1%	
Pct. Local Incentives		55%					Local Incentives Bonus	3%	
							Total Benefits	7%	
	Year 1	Year 2	Year 3	Year 4	Year 5	Total			
New Jobs	100	100	100	100	100				
Average Wages	\$ 60,000	\$ 62,000	\$ 64,000	\$ 66,000	\$ 68,000				
New Payroll	\$ 6,000,000	\$ 6,200,000	\$ 6,400,000	\$ 6,600,000	\$ 6,800,000				
Program Benefit	\$ 420,000	\$ 434,000	\$ 448,000	\$ 462,000	\$ 476,000	\$ 2,240,000			
Estimated Retained Wht (3%)	\$ 180,000	\$ 186,000	\$ 192,000	\$ 198,000	\$ 204,000	\$ 960,000			
Estimated Tax Credits	\$ 240,000	\$ 248,000	\$ 256,000	\$ 264,000	\$ 272,000	\$ 1,280,000			

27

Enhanced Enterprise Zone



- 87 zones
- Automatic real property tax abatement
 - Eligible projects
- MO tax credits
 - Eligible projects
 - Based on
 - 2% of New payroll
 - ½% of New investment
 - 5 years

28

Enhanced Enterprise Zone – Tax Credits

	Payroll Benefit	Investment Benefit	2%/year	0.5%/year			
	Year 1	Year 2	Year 3	Year 4	Year 5	Total	
New Jobs	10	10	10	10	10		
Average Wages	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000		
New Payroll	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000		
Payroll Benefit	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ 30,000	
New Capital Investment	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000		
Investment Benefit	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 75,000	
Total Benefit	\$ 21,000	\$ 21,000	\$ 21,000	\$ 21,000	\$ 21,000	\$ 105,000	

29

BUILD

- Discretionary
 - Competitive projects.
- Provides tax credits
 - Refundable
- Joint proposal with local incentives.

30

Development Tax Credit

- Discretionary
 - Competitive or Gap Financing Projects
- Provides tax credits
 - Sellable, not refundable.
- Joint proposal with local incentives.

31

Rebuilding Communities Credit

- Formula, based on eligible new investment.
- Limited to “Distressed Areas”
 - See DED website for list.

32

State Tax Credit Programs Redevelopment Projects

Program	Funding Basis	Approval
Historic Preservation (DED)	25% of eligible rehab	First Come
Brownfield Remediation (DED)	Up to 100% of remediation	Discretionary
Brownfield Demolition (DED)	Up to 100% of demolition	Discretionary
Infrastructure (MDFB)	50% of contribution; Up to approved amount.	Discretionary
Neighborhood Preservation	15-35% of new/rehab.	Lottery

33

Other State Funding Programs

Development Finance Projects



34

Other State Programs Tax Exemptions and Deductions

- Sales tax exemptions:
 - Manufacturing companies:
 - Machinery and equipment (statutory)
 - Energy (statutory)
 - Certain non-Manufacturing companies:
 - Chapter 100 personal property (discretionary)
- Mutual fund income tax apportionment

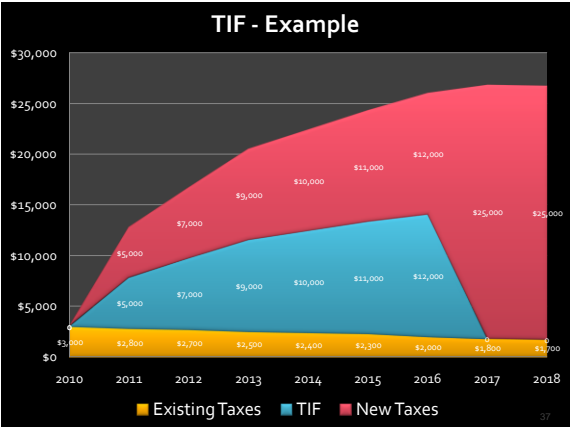
35

Other State Programs Tax Diversion Programs

Program	Funding Basis	Approval
Tax Increment Financing	Up to 50% of "new" sales tax OR withholding tax	Discretionary
MODESA	Up to 50% of "new" sales tax AND withholding tax	Discretionary
Downtown Preservation	Up to 50% of "new" sales tax	Discretionary

All the above require some or all of the local taxes to be diverted to the project to qualify.

36



Federal Pass-Through Programs

- Community Development Block Grant (CDBG)
 - Eligible areas:
 - “Entitlement”, metro areas.
 - “Non-entitlement”, non-metro*
 - (Administered by DED)
 - About \$30 mil./year in normal allocation
 - Funds must benefit:
 - Low/Moderate Income persons
 - Removal of slum/blight
 - Urgent needs



Local Programs
New Tax/fee Programs

Program	New Political Subdivision	Use of Funds	Eminent Domain	Special Assment	Property Tax	Sales Tax	Public Vote
NID	No	Public Infrastructure	No	Yes	No	No	Optional
CID	Yes – sales, property tax No–Assessment	Infrastructure, Promotions, Maintenance, Security	No	Yes	Yes	Up to 1%	No
TDD	Yes – sales, property tax No–Assessment	Transportation Infrastructure	Yes	Yes	Yes	Up to 1%	No
ED Sales Tax	No	Marketing, Infrastructure, Buildings	No	No	No	Up to ½%	Yes

NID:

CID:

TDD:

ED Sales Tax:

Neighborhood Improvement District

Community Improvement District

Transportation Development District

Economic Development Sales Tax

Local Programs
Property Tax Abatement/Exemption

Program	Eminent Domain	Blight Finding	Other Benefit	Personal Property?
353, Urban Redevelopment Corporation	Yes	Yes		No
Enhanced Enterprise Zone	No	Yes	Automatic	No
Land Clearance for Redevelopment Authority	Yes	Yes		Possible
Chapter 100 Bonds	No	No	Sales Tax Exemption	Possible

Local Programs
Tax Diversion

Program	Real Property Tax Diverted	Sales Tax Diverted	Eminent Domain	Use of Funds	Maximum Time Period
Tax Increment Financing	Yes	Yes	Yes	Broad	23 Years
Sales Tax Rebate / Development Agreement	No	Yes	No	Public Infrastructure	Not limited, but subject to annual appropriations

Bond Programs



43

Bond Programs Description

- Funds are provided for project costs by the issuance of bonds.
 - Bonds are purchased by individuals, institutions/companies
 - Very conservative investments
- Types of Bonds:
 - Public Purpose:
 - Revenue or General Obligation Bond
 - Private Company Benefit:
 - Tax-Exempt Revenue bonds (manufacturing only)
 - Chapter 100 (primarily used for tax abatement/exemption)

44

Types of Bonds

- Revenue Bond:
 - Payments are made from the project.
 - Types of revenue bonds:
 - Public purpose
 - Industrial
- General Obligation:
 - Payments are guaranteed by city/county.
 - Requires voter approval (2/3, 4/7)
 - Types of General Obligation bonds:
 - Public Purpose
 - Industrial (almost never done)

45

Revenue Bonds

- Possible issuers:
 - Cities, Counties
 - Local Industrial Development Authorities (“IDAs”)
 - Planned Ind. Expansion Authorities
 - Land Clearance for Redevelopment Authorities
 - MO Development Finance Board

46

Tax-Exempt bonds

- Interest paid to bondholder is not taxable (federal & state income tax).
 - Results in about 30% lower interest rate.
- Eligible Tax-Exempt Revenue Bonds:
 - Public purpose
 - Industrial
 - Manufacturing only; less than \$20 mil. project.
 - Bond is sold based on company’s credit.
 - Issuer doesn’t guarantee payment.

47

Tax-Exempt Bonds

- “Non-public Entity” bonds are capped by federal Gov.
 - DED is designated to allocate.
 - 2010: \$538 mil.
 - Types of bonds subject to cap:
 - Manufacturing
 - Low income housing
 - Student loans
 - First time farmers
 - Exempt facilities/environmental

48

Chapter 100 Bonds

- Purpose:
 - Abatement of up to 100% of real and/or personal property tax.
 - Also, potential of exemption of sales tax on bldg. materials
 - Bond is of no benefit, just a means to trigger abatement.
 - Unless it qualifies as tax-exempt for manufacturing.
- Method:
 - City/County issues revenue bond.
 - Company typically purchases bond.
 - City/County doesn't guarantee payments.
 - Proceeds used to purchase assets or build building.
 - City/county owns assets.
 - Lease to company in amount of bond payments.

49